Closing. After the initial Closing and prior to the Final Closing (if more than one Closing occurs), only Limited Partners admitted at any prior Closing will be entitled to share in distributions made with respect to income earned between the date of the Closing at which they were admitted and any subsequent Closing. It is possible that there will not be sufficient earnings as of the date of any subsequent Closing to permit Limited Partners admitted at a prior Closing to receive the full amount of the cumulative Priority Return to date. Any cumulative Priority Return which is in excess of earnings as of a subsequent Closing and which is subsequently paid out of earnings accrued after a subsequent Closing will be shared by all Limited Partners, including those admitted at the subsequent Closing, pro rata in accordance with the number of Units held by such Limited Partners.

Capital Proceeds

All cash receipts of a Fund from any "Capital Transaction" (which is generally defined in the Partnership Agreement to include disposition of investments, return of capital on investment, in the case of the Enhanced Yield Fund, refinancing of an Enhanced Yield Investment after the expiration of the Investment Period or any applicable Reinvestment Period or liquidation of such Fund, or events not in the ordinary course of such Fund's business) are applied as follows:

(a) *first,* in order of priority provided by law, or any applicable agreement or undertaking of such Fund to:

(i) payment of all amounts required to be disbursed in connection with such Capital Transaction;

(ii) payment of all debts and obligations of such Fund then due related to the particular Capital Transaction;

(iii) creation of reasonable cash reserves for and provide for the payment of the taxes, debt service, brokerage fees and/or other costs, expenses and liabilities related to the Capital Transaction or the assets affected thereby;

(iv) payment of all other debts and obligations of such Fund then due, other than to any Partner; and

(v) creation of reasonable cash reserves for the payment of any costs, expenses or liabilities of such Fund; and

(b) *second,* to payment of all debts and obligations of such Fund to any Partners.

The balance, which is defined in the Partnership Agreement as "Available Capital Proceeds" to the extent in excess of the Federal Tax Allowance may, in the judgment of Equitable Capital, subject to the review of the Independent General Partners of such Fund, be applied to Follow On Investments. Further, the principal of an Enhanced Yield Investment liquidated during the 36-month Initial Investment Period may be applied, as to original invested capital, but not capital appreciation, to additional Enhanced Yield Investments ("Additional Investments"), within the applicable Reinvestment Period. Available Capital Proceeds not applied to or set aside as reserves for Follow On Investments or Additional Investments, which is defined as "Distributable Capital Proceeds", will be distributed as soon as practicable after such Capital Transaction, as follows:

(a) From Enhanced Yield Investments:

(1) *first,* 99% to the Limited Partners of such Fund, as a class, and 1% to Equitable Capital, as the Managing General Partner of such Fund, until the Limited Partners, as a class, have received from all distributions then or theretofore made by such Fund, of Distributable Cash from Enhanced Yield Investments, and Distributable Capital Proceeds from Enhanced Yield Investments, an amount equal to the Priority Return and any outstanding Compensatory Payments;

(2) *second,* to Equitable Capital, as Managing General Partner, and the Limited Partners of such Fund, as a class, until each class of Partners has received from cumulative distributions from Enhanced Yield Investments the portion of their Net Capital Contributions represented by Enhanced Yield Investments then or theretofore liquidated and not reinvested plus the Priority Return and any

outstanding Compensatory Payments, except that if there are any outstanding Deferred Distribution Amounts, such distribution will, to the extent permitted by the related Partnership Agreement, first be made solely to Equitable Capital until such amount is distributed to it;

(3) *third,* 70% to the Limited Partners of such Fund, as a class, and 30% to Equitable Capital (29% being an Incentive Distribution) until Equitable Capital has received, from all distributions then or therefore made by such Fund of Distributable Capital Proceeds from Enhanced Yield Investments, and Distributable Cash from Enhanced Yield Investments, 20% of all distributions (other than from a return of capital); and

(4) *fourth,* thereafter 80% to the Limited Partners, as a class, and 20% to Equitable Capital (19% being an Incentive Distribution).

(b) From all other sources, including:

(i) Temporary Investments; and

(ii) Other sources not included in (a) above;

(1) *first,* to the Managing General Partner and the Limited Partners of such Fund, as a class, until each class of Partners of such Fund has received from cumulative distributions other than distributions from Enhanced Yield Investments the portion of their Net Capital Contributions represented by Temporary Investments then or theretofore liquidated and not reinvested, and

(2) *second,* 99% to the Limited Partners of such Fund, as a class, and 1% to Equitable Capital.

The Limited Partners' Net Capital Contribution is such Partners' Capital Contribution net of organizational and offering expenses and marketing expenses paid by the applicable Fund and selling commissions. Distributions to Limited Partners will be allocated among the Limited Partners in proportion to the number of Units held by each such Partner.

To the extent that making any Incentive Distribution from the proceeds of Capital Transactions would result in Equitable Capital's receiving cumulative Incentive Distributions from such Fund in excess of 20% of the cumulative capital gains realized by such Fund (net of realized capital losses and unrealized net capital depreciation), the amount of such distribution will instead be deferred (the "Deferred Distribution Amount").

Allocation of Profits and Losses

The profits and losses of each Fund for federal income tax purposes, including each item of income, gain or loss, deduction or credit (defined in the Partnership Agreement as "Profits" and "Losses"), are to be determined as of the end of, and within 60 days after the end of, each year.

(a) Profits of a Fund other than Liquidation Profits are generally allocable as follows:

first, to each Partner of such Fund who has received or is scheduled to receive distributions in the aggregate (exclusive of any distributions representing a return of capital) in excess of the amount of Net Profits previously allocated to such Partner, to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

second, to each Partner of such Fund having an excess of his Deemed Distribution Amount over the capital account of such Partner (determined after giving effect to any allocation of Profit under clause first above and, in the case of Equitable Capital, including an amount equal to the principal amount of its note), to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners; and

third, to the Partners in proportion to the positive balances in their capital accounts (determined after giving effect to any allocation of Profit under clauses first and second above and, in the case of Equitable Capital, including an amount equal to the outstanding principal of any MGP Note).

A Partner's "Deemed Distribution Amount" is the amount such Partner would receive as a distribution (reduced by the amount of any distribution then scheduled to be made to such Partner) if all assets of the applicable Fund were sold as of such date for an amount equal to the amount at which such assets were carried on the books of such Fund maintained in accordance with federal income tax accounting principles, adjusted to reflect any appreciation of such assets entered on the books of the Fund at the time of the sale of Units to any Limited Partner at a premium over $1,000, and the proceeds applied in accordance with Sections 4.1 and 4.2 of the related Partnership Agreement assuming that no reserves described in Section 4.2A(1)(a)(iv) of its Partnership Agreement are required other than reserves for which such Fund has claimed or is currently entitled to claim a federal income tax deduction or loss and assuming that all Deferred Distribution Amounts are distributed to the Limited Partners.

(b) Losses of the Partnership other than Liquidation Losses are generally allocable as follows:

first, to each Partner who has been allocated Net Profit in excess of the aggregate amount of distributions received or scheduled to be received by such Partner (exclusive of any distribution representing a return of capital), to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

second, to each Partner having an excess in its Capital Account (determined after giving effect to any allocation of Loss under clause first above and, in the case of Equitable Capital, including an amount equal to the MGP Note) over the Deemed Distribution Amount to such Partner, to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

third, to the Partners to the extent of and in proportion to the positive balance in the Capital Accounts of all such Partners (determined after giving effect to any allocation of Loss under clauses first and second above and, in the case of Equitable Capital, including an amount equal to the outstanding principal of the MGP Note); and

fourth, the balance, if any, to the Managing General Partner.

Losses generally will not be allocated to any Partner to the extent such allocation of Losses would cause or increase a deficit in the capital account of a Limited Partner or a deficit in the capital account of Equitable Capital in excess of the outstanding principal amount of the Managing General Partner's promissory note to the Fund.

(c) Liquidation Profits and Losses shall be allocated among the Partners as follows:

Liquidation Profits shall be allocated among the Partners:

first, to each Partner having an excess of its Deemed Distribution Amount over the Capital Account of such Partner (in the case of Equitable Capital, such Capital Account including an amount equal to the outstanding principal amount of the MGP Note), to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners; and

second, the balance, if any, to the Partners in proportion to the balances in their Capital Accounts (determined after giving effect to any allocation of Profit under clause first above and, in the case of Equitable Capital, including an amount equal to the outstanding principal amount of the MGP Note).

Liquidation Losses of the Partnership shall be allocated among the Partners:

first, to each Partner having an excess in its Capital Account (in the case of Equitable Capital, such Capital Account including an amount equal to the outstanding principal amount of the MGP Note) over the Deemed Distribution Amount of such Partner, to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

second, to the Partners to the extent of and in proportion to the positive balance in the Capital Accounts of all such Partners (determined after giving effect to any allocation of Loss under clause first above and, in the case of Equitable Capital, including an amount equal to the principal amount of the MGP Note); and

third, the balance, if any, to Equitable Capital.

The Funds intend to file an application for an exemptive order of the Securities and Exchange Commission with respect to the proposed procedures which would be applicable in the event of distributions of investments of the Funds upon liquidation or the removal of Equitable Capital as Managing General Partner of a Fund. Under such application, in the event of such distribution or upon the removal of Equitable Capital as the Managing General Partner of a Fund and continuation of such Fund, its investments will be valued pursuant to the procedures described under "Summary of the Partnership Agreement—Removal of the General Partners". All unrealized gains or losses shall be deemed realized at such removal date for purposes of computing the Incentive Distribution. Pursuant to Section 6.3 of the Partnership Agreement, in the event of the removal of Equitable Capital as Managing General Partner, Equitable Capital will then receive a final allocation with respect to its Incentive Distribution based upon such valuations and will become a Limited Partner with respect to its remaining interest in such Fund. No assurance can be given that such exemptive order will be granted.

Special Distributions and Allocations

Special allocations of taxable Profits and Losses may be made to reflect unrealized appreciation that is in a Fund at the time of admission of a new Limited Partner and that is subsequently realized by such Fund.

Investment and other cash returns earned prior to the Final Closing will be allocated and distributed to those Partners who were Partners at the time such income was earned.

Determination of Distributions and Allocations Among Limited Partners

Except as described above, all distributions of Distributable Cash from Investments and Distributable Capital Proceeds to, and allocations of Profits and Losses among, the Limited Partners of a Fund will be made in the ratio which the number of Units held by each Limited Partner of such Fund bears to the total number of Units held by all such Limited Partners.

Except as described above, all Distributable Cash from Investments and Profits and Losses of a Fund not arising from a Capital Transaction will be distributed or allocated, as the case may be, to the persons shown on the records of such Fund to have been Partners as of the last day of the fiscal quarter for which such distribution or allocation is to be made.

With certain exceptions, all of a Fund's Distributable Capital Proceeds will be distributed, and all Profits and Losses arising from such Capital Transaction shall be allocated, to the persons shown on the records of such Fund to have been Partners as of the date of such Capital Transaction.

TRANSFERABILITY OF UNITS

General

Limited Partners' interests in a Fund will be recorded in the books and records of such Fund as provided by Delaware law. No transfer or assignment of a Limited Partner's interest in such Fund will be effective except to the extent made in accordance with the provisions of the Partnership Agreement. Sales, transfers or assignments of interests in a Fund will be recognized quarterly.

Units will not be represented by any certificates or other instruments, but nonetheless are transferable upon submission to the Administrator of duly executed transfer documentation in form and substance acceptable to the Administrator. Except for sales, transfers or assignments by Tax-Exempt Investors, certain gratuitous transfers and transfers incident to divorce, no sale, transfer or assignment of a Limited Partner's Units may be made without the consent of Equitable Capital, which consent will not be unreasonably withheld.

Restrictions

No sale, assignment or transfer that would result in the transferor or any transferee holding less than one Unit will be recognized for any purpose without the consent of Equitable Capital, which consent will be granted only for good cause. In no event may any Units be assigned to a minor or incompetent, except in trust, pursuant to the Uniform Gifts to Minors Act or by will or by intestate succession, or to a person who is a market maker in securities unless such person certifies that it is purchasing the Units solely for investment purposes and not for resale. Units in the Enhanced Yield Fund may not be sold or otherwise transferred to Tax-Exempt Investors. Except in cases of death of a transferor or operation of law as a condition of transfer, each transferee must certify that he, she or it satisfies the investor suitability standards described in this Prospectus and, in the case of the Enhanced Yield Fund, that he, she or it is not, and is not purchasing on behalf of, a Tax-Exempt Investor. See "Investor Suitability Standards".

No sale, transfer or assignment or negotiation of an interest in a Fund will be recognized or effective if such sale, transfer or assignment, together with all other such transfers on the books of such Fund during the immediately preceding 12 months, would result in the transfer of 40% in the case of the Enhanced Yield Fund, or 50% in the case of the Enhanced Yield Retirement Fund, or more of interests in such Fund. See "Certain Federal Income Tax Considerations—Termination of the Fund for Tax Purposes". A Limited Partner may not transfer a Unit unless he, she or it represents and provides other documentation satisfactory in form and substance to Equitable Capital that such transfer was not effected through a broker-dealer or matching agent which makes a market in Units or which provides a readily available, regular and ongoing opportunity to holders of Units to sell or exchange their Units through a public means of obtaining or providing information of offers to buy, sell or exchange Units. In the case of the sale of a Unit in the Enhanced Yield Fund, Equitable Capital must determine that such sale, assignment or transfer will not, by itself or together with any other sales, transfers or assignments, "substantially increase the risk of" such Fund's being classified as a publicly-traded partnership. In the case of the sale of a Unit in the Enhanced Yield Retirement Fund, Equitable Capital must determine that such sale, assignment or transfer would not, by itself or together with any other sales, transfers or assignments, "likely result in" such Fund's being classified as a publicly-traded partnership. A transferor will not be required to make the representations described above if he, she or it represents that the transfer is effected through an agent whose procedures have been approved by Equitable Capital as consistent with the requirements for avoiding classification as a publicly-traded partnership. In addition, no sale or other transfer of a Unit of a Fund will be recognized if such sale or transfer, together with all other such transfers during the same taxable year of a Fund would result in the transfer of more than 4.5% (5% in the case of the Enhanced Yield Retirement Fund) of Units in such Fund, disregarding any Safe Harbor Transfers described below (The term "Units" includes for purposes of the transferability restrictions any units of limited partnership interest in the Funds sold in an offshore offering to a foreign investment fund or other entity formed for the purpose of investing in the Funds. See "Foreign Offering"). However, if Units in a Fund are transfered pursuant to a matching service described below, such transfers may be permitted subject to a separate 9.5% (10% for the Enhanced Yield Retirement Fund) limitation described below, subject to the condition that no more than 1.5% (2% for the Enhanced Yield Retirement Fund) of Units in such Fund will be transferred in any one taxable year (disregarding transfers pursuant to such matching service and Safe Harbor Transfers described below). For purposes of the limitations described in the preceding sentence, the following transfers ("Safe-Harbor Transfers") will be disregarded: (i) transfers in which the basis of the partnership interest in the hands of the transferee is determined, in whole or in part, by reference to its basis in the hands of the transferor or is determined under section 732 of the Code; (ii) transfers at death; (iii) transfers between members of a family (as defined in section 267(c)(4) of the Code); (iv) the issuance of interests by or on behalf of the partnership in exchange for cash, property, or services; (v) distributions from a retirement plan qualified under section 401(a) of the Code; and (vi) block transfers. In addition, for purposes of the 1.5% (2% for the Enhanced Yield Retirement Fund) limitation, transfers through a matching service will be disregarded if (i) at least a 15 calendar day delay occurs between the day the matching agent receives written confirmation from the listing customer that an interest in a partnership is available for sale (the "contact date") and the earlier of (A) the day information is made available to potential buyers regarding the offering of such interest for sale, or (B) the day information is made available to the listing customer regarding the existence of any outstanding bids to purchase an interest in such partnership at a stated price; (ii) the closing of the sale effected through the matching service does not occur prior to the 45th calendar day after the contact date; (iii) the listing customer's information is removed from the matching service within 120 calendar days after the contact date; (iv) following any removal (other than removal by reason of a sale of any part of such interest) of the listing cutomer's information from the matching service, no interest in the partnership is entered into the matching service by such listing customer for at least 60 calendar days; and (v) the sum of the percentage interests in partnership capital and profits represented by partnership interests that are sold or otherwise disposed of other than in Safe-Harbor Transfers during the taxable year of the partnership does not exceed 9.5% (10% for the Enhanced Yield Retirement Fund) of the total Units in the Fund. The term "block transfer" means the transfer by a Partner in one or more transactions during any thirty calendar day period of partnership interests representing in the aggregate more than 5 percent of the total interest in partnership capital or profits. Sales, transfers, assignments or negotiations the recognition and effectiveness of which are so suspended and deferred will be recognized (in chronological order to the extent practicable) when, and to the extent that, such recognition will not result in there having been transfers of in excess of the permitted percentage, as applicable, in interest of such Fund and will not likely result in, or substantially increase the risk of, reclassification as a publicly-traded partnership. Equitable Capital has the authority to amend the transferability provisions of either Partnership Agreement to the extent necessary or desirable (or to eliminate or amend provisions to the extent no longer necessary) to preserve the tax status of the Partnership or, in the case of the Enhanced Yield Retirement Fund, to preserve certain exemptions under ERISA.

In connection with any sale, exchange, transfer or assignment Equitable Capital may, in its discretion, require an opinion of counsel satisfactory in form and substance to Equitable Capital that such sale, exchange, transfer or assignment would not result in a termination of a Fund for purposes of Section 708 of the Code (see "Certain Federal Income Tax Considerations—Termination of a Fund for Tax Purposes"), cause such Fund to lose its status as a partnership or to be classified as a publicly-traded partnership and be taxable as a corporation for federal income tax purposes or violate any federal securities laws or any state securities or "blue sky" laws, including investor suitability standards thereunder.

Any sale or transfer of Units in California or involving a California resident or of Units originally purchased by a California resident requires the prior written consent of the Commissioner of Corporations of the State of California, except as provided in the Commissioner's Rules. The Subscription Agreement will bear the following legend:

> "IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES".

Any sale or transfer of Limited Partners' Units outside California and not involving California residents or involving Units not originally purchased by a California resident does not require the prior written consent of the Commissioner of Corporations of the State of California.

It is intended that no public market for Units develop. Equitable Capital intends to use its best efforts to implement the transfer restrictions contained in the Partnership Agreement so that no public market develops. The ability of a market to develop will be limited by restrictions on trading provided in each Partnership Agreement for the purpose of preventing a Fund from being classified as a publicly-traded partnership taxable as a corporation. See "Certain Federal Income Tax Considerations— Recent Legislation". Limited Partners therefore may not be able to liquidate their investment in a Fund in the event of an emergency or for any other reason. Moreover, the lack of a public market may affect the price for which a Limited Partner would be able to sell his, her or its Units. MLPF&S may provide limited investor services which may assist Limited Partners desiring to sell their Units but will not value any Units. Accurate information as to the actual market value of a Unit at any given date may not be available. MLPF&S will not, to the extent prohibited by law, rule or regulation, be able to solicit any potential buyers of Units but may solely afford a matching service to sellers and potential buyers. MLPF&S's services, if rendered, will be made available only to Limited Partners who have established an account with MLPF&S. MLPF&S will not receive any compensation from the General Partners or either Fund for providing such investor services nor will MLPF&S impose any charge for such investor services on selling Limited Partners who maintain accounts with MLPF&S. MLPF&S is under no obligation to provide any investor service and, if provided, such services may be terminated at any time. In connection with any sale of Units which are arranged by MLPF&S in the performance of such investor services, MLPF&S will receive a fee. At present, in comparable transactions MLPF&S generally charges the buyer a commission equal to 7% of the proceeds to the seller, but such fee may vary from time to time. The General Partners do not intend to redeem or repurchase Units although they reserve the right to do so under the conditions specified in the Investment Company Act.

Assignees

The assignee of a Unit in a Fund does not become a Limited Partner by virtue of such assignment, and obtains no rights other than the right to receive distributions from such Fund and allocations of the income, gains or losses of such Fund. A purported sale, assignment or transfer of a Limited Partner's Units which has been approved by Equitable Capital will be recognized by such Fund when it has received written notice of such sale, assignment or transfer in form satisfactory to the Administrator, signed by both parties, containing the purchaser's, transferee's or assignee's acceptance of the terms of the Partnership Agreement, a power of attorney consistent with Article Thirteen of the Partnership Agreement and a representation by the parties that the sale or assignment was lawful. Such sale or assignment will be effective as of the first day of the quarter following the fiscal quarter in which such notice is filed with such Fund and is recognized. The assignee of Units who does not become a Limited Partner and desires to make a further assignment of such Units is subject to all of the restrictions on transferability of Units described in this Prospectus and the Partnership Agreement.

In the event of the death, adjudication of incompetence or bankruptcy of a Limited Partner, his, her or its legal representatives will have all the rights of a Limited Partner for the purpose of settling or managing his, her or its estate and such power as the decedent, incompetent or bankrupt Limited Partner possessed to assign all or any part of his, her or its interest in such Fund and to join with such assignee in satisfying conditions precedent to such assignee's becoming a substituted Limited Partner.

Substituted Limited Partners

No Limited Partner has the right to substitute an assignee as a Limited Partner in his place. Equitable Capital, as Managing General Partner, has the right in its sole discretion to permit an assignee to become a substituted Limited Partner, and any such consent by Equitable Capital is binding and conclusive without the consent or approval of any Limited Partner. In any event, such consent shall be given only if the assignee executes and acknowledges such instruments as Equitable Capital deems necessary or desirable to give effect to such substitution. The substituted Limited Partner shall pay all reasonable expenses, including attorneys' fees, incurred by a Fund in connection with such substitution of the Limited Partner.

SUMMARY OF THE PARTNERSHIP AGREEMENT

Each Fund has been organized as a limited partnership under Delaware law pursuant to an Amended and Restated Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware on July 5, 1988 and will be governed by the related Partnership Agreement. The form of the Partnership Agreement is included in full as Exhibit A to this Prospectus. It is recommended that each prospective purchaser read it carefully in its entirety.

Certain provisions of the Partnership Agreement have been described elsewhere in this Prospectus. With regard to the management of the Funds and the fees and payments to be made to Equitable Capital, the Administrator and their affiliates, see "Management Arrangements"; with regard to various transactions by and relationships of the Funds with Equitable Capital and its affiliates, see "Conflicts of Interest"; with regard to the transfer of Units, see "Transferability of Units" and "Risk and Other Important Factors"; with regard to the distribution and allocation of income, gains or losses, see "Distributions and Allocations"; and with regard to reports to be made to the Limited Partners, see "Reports".

The following is a brief summary of certain portions of the Partnership Agreement not described elsewhere in the Prospectus. All statements made below and elsewhere in this Prospectus relating to the Partnership Agreement are qualified in their entirety by reference to the Partnership Agreement. Capitalized terms used herein without definition shall have the meanings set forth for such terms in the form of Partnership Agreement.

Fund Capital

General

No Partner shall be entitled to interest on any Capital Contribution to a Fund or on such Partner's Capital Account. (The term "Capital Account" generally refers to the amount of a Partner's Capital Contribution to a Fund, plus his share of such Fund's profits, reduced by his share of such Fund's non-deductible expenditures, losses and distributions.) Except as otherwise provided in the Partnership Agreement, no Partner has the right to withdraw, or to receive any return of, his Capital Contribution.

No Requirement for Additional Capital Contributions

Equitable Capital is authorized to admit Limited Partners to a Fund in the manner and subject to the conditions set forth in this Prospectus. No Limited Partner, as such, will be required or authorized to make any additional Capital Contributions to a Fund. See "Liability of Partners to Third Parties" below and "Risk and Other Important Factors—Repayment of Certain Distributions". Under the Partnership Agreement Equitable Capital as Managing General Partner will make a contribution to the capital of each Fund in the form of a non-interest bearing note with a principal amount equal to 1.01% of the aggregate Net Capital Contributions of the Limited Partners of such Fund. The principal amount of such note will be reduced in proportion to the aggregate amount of Limited Partners' Capital Contributions returned to Limited Partners.

The General Partners

Term and Election

The General Partners of each Fund will consist of the Independent General Partners and Equitable Capital as the Managing General Partner. General Partners will hold office until their resignation or removal pursuant to the terms of the Partnership Agreement or until a successor has been elected at any meeting of Limited Partners. The Limited Partners may elect a successor to a resigned or removed General Partner prior to or as of the effective date of such removal by the written consent or affirmative vote of a majority in interest of the Limited Partners (subject to the condition described under "Voting Rights of Limited Partners—Limitations on Voting Rights" below).

The authorized number of Independent General Partners of a Fund shall be fixed from time to time by such Fund's Independent General Partners then in office. However, the authorized number of Independent General Partners of a Fund shall not, except prior to the initial public offering of Units, be fewer than two or more than nine. A majority of the General Partners of a Fund shall at all times be Independent General Partners. If at any time the number of Independent General Partners of a Fund is less than a majority of the General Partners, the Independent General Partners of such Fund shall, within 90 days thereafter, designate one or more successor Independent General Partners so as to restore the number of Independent General Partners to a majority of the General Partners. Any successor Independent General Partners shall hold office until his resignation, incapacity or removal or until his successor has been elected at any meeting of Limited Partners. In the event that no Independent General Partners of a Fund remain, Equitable Capital shall, within 90 days, call a meeting of Limited Partners of such Fund for the purpose of electing Independent General Partners.

Authority

The General Partners of each Fund shall have exclusive management and control of the business of such Fund, and shall have the authority, on behalf of such Fund, to do all things which, in their sole judgment, are necessary or appropriate to carry out their duties, except as the Partnership Agreement may expressly limit such powers. Subject to the supervision of the Independent General Partners, Equitable Capital as Managing General Partner shall have the power and authority to manage the business and affairs of such Fund. The Independent General Partners by majority vote shall have the power and authority to approve or disapprove (*i*) each Bridge Investment and (*ii*) any Mezzanine, Other, or Follow On Investment in a Managed Company or Non-Managed Company which does not meet the applicable Guidelines prior to investment by such Fund in such investment.

Removal of the General Partners

The Partnership Agreement provides that the Independent General Partners of a Fund may be removed either (*i*) for cause by the action of at least two-thirds of such Fund's remaining Independent General Partners, (*ii*) by failure to be re-elected by such Fund's Limited Partners at any meeting of such Partners called for the purpose of electing General Partners or (*iii*) with the consent of a majority in interest of such Fund's Limited Partners. Equitable Capital may be removed as the Managing General Partner of a Fund by (*i*) a majority of such Fund's Independent General Partners, (*ii*) by failure to be reelected by such Fund's Limited Partners at any meeting of such Partners called for the purpose of electing General Partners or (*iii*) with the consent of a majority in interest of such Fund's Limited Partners.

The Funds and Equitable Capital intend to file an application for an exemptive order of the SEC concerning proposed procedures in the event that Equitable Capital is removed as the Managing General Partner. Under such application, in the event of the removal of Equitable Capital as Managing General Partner of a Fund and the continuation of such Fund, the investments of such Fund at the time of removal shall be appraised by two independent appraisers, one selected by Equitable Capital and one selected by the Independent General Partners of such Fund. In the event such two appraisers are unable to agree on the value of such Fund's investment portfolio, they shall jointly appoint a third independent appraiser whose determination shall be final and binding. The cost of such appraisal will be borne equally by such Fund and Equitable Capital. All unrealized capital gains and losses of such Fund would be deemed realized at that time for purposes of making a final allocation to Equitable Capital. With respect to the allocation of its Incentive Distributions (*i.e.*, the Profits and Losses allocated to it pursuant to Sections 4.1B(2) and 4.2B(2) of the Partnership Agreement), Equitable Capital would receive a final allocation of capital gains and losses (including unrealized capital gains and losses deemed realized for this purpose) pursuant to such sections of the Partnership Agreement as if such allocation were being made at the end of a fiscal year. If the capital account of Equitable Capital has a positive balance after such final allocation, to the extent permissible under the Investment Advisers Act of 1940 (the "Investment Advisers Act"), such Fund would deliver a promissory note issued by it to Equitable Capital, the principal amount of which shall be equal to the amount, if any, by which the positive balance in Equitable Capital's capital account exceeds its Capital Contribution, and which bears interest at a rate per annum equal to the prime lending rate in effect at The Chase Manhattan Bank, N.A. at the time of removal, with interest payable annually and principal payable, if at all, only from any available cash before any distributions thereof are made to the Partners. If the capital account of Equitable Capital has a negative balance after such final allocation, Equitable Capital shall contribute cash to the capital of such Fund in an amount equal to the negative balance in its capital account, which contribution of cash will be a Capital Contribution, thus affecting the amounts allocated to it. After such contribution any obligation of Equitable Capital under any note contributed to such Fund as capital will be extinguished. Equitable Capital would become a Limited Partner with respect to its remaining interest in Profits and Losses allocated and related distributions. Such procedures would also be applicable to the removal of any successor to Equitable Capital as Managing General Partner of such Fund.

Voting Rights of Limited Partners

General

The Limited Partners of a Fund cannot participate in its management or control. However, the Partnership Agreement provides that, subject to certain conditions described below, the Limited Partners may approve certain matters. Neither Fund will hold annual meetings of Limited Partners. Each will hold special meetings of Limited Partners as required by the Partnership Agreement or by the provisions of the Investment Company Act. Upon notification to the Independent General Partners, Limited Partners of a Fund may, at their expense, obtain a list of the names and addresses of all of the Limited Partners of such Fund for the purpose of soliciting votes.

A. Subject to the provisions described under "Limitations on Voting Rights" below, the General Partners of a Fund may not, without the consent of all of the Limited Partners, do the acts listed in Section 5.5 of the Partnership Agreement, including: (*i*) admit any person as a General Partner or Limited Partner of such Fund, except as specifically provided in the Partnership Agreement, (*ii*) knowingly perform any act that would subject any Limited Partner to the liability of a General Partner or (*iii*) continue the business with property of such Fund on the death, retirement, removal, dissolution, adjudication of bankruptcy, incompetence or insanity of a General Partner, except as specifically provided in the Partnership Agreement.

B. Subject to the provisions described under "Limitations on Voting Rights" below, the General Partners of a Fund may not, without the consent of a majority in interest of the Limited Partners of such Fund: (*i*) sell or otherwise dispose of all or substantially all of such Fund's assets at any one time not in the ordinary course of business as determined by the investment objective of such Fund or (*ii*) elect to dissolve such Fund.

C. Subject to the provisions described under "Limitations on Voting Rights" below, a majority in interest of the Limited Partners of a Fund may: (*i*) approve or disapprove the election or removal of General Partners of such Fund; (*ii*) approve or disapprove the election or removal of the investment adviser to such Fund; (*iii*) approve or disapprove proposed changes in the nature of such Fund's business so as to cause it to cease to be, or to withdraw its election as, a business development company under the Investment Company Act; (*iv*) approve or disapprove any proposed investment advisory contract or management agreement or terminate any such existing contracts; provided, however, that such new contracts are also approved by a majority of the Independent General Partners; (*v*) approve or disapprove the appointment of a successor Managing General Partner; and (*vi*) approve or disapprove of any other matters that the Investment Company Act requires to be approved by the Limited Partners so long as such Fund is a business development company subject to the provisions of the Investment Company Act.

D. Subject to the provisions described under "Limitations on Voting Rights" below and the provisions of Section 10.2 of the Partnership Agreement, a majority in interest of the Limited Partners may amend the Partnership Agreement; provided that such amendment does not conflict with the Investment Company Act or the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act").

Limitations on Voting Rights

In order to preserve the limited liability of the Limited Partners and protect the tax status of each Fund, Section 11.2 of the Partnership Agreement limits the foregoing rights.

Notwithstanding any other provisions of the Partnership Agreement, the exercise by the Limited Partners of a Fund of the foregoing voting rights is subject to the prior receipt by such Fund of an opinion of independent counsel for such Fund to the effect that neither the possession of such right or rights nor the exercise of such right or rights will (*i*) violate the provisions of the Delaware Act or the laws of such other jurisdictions in which such Fund is then formed or qualified, (*ii*) adversely affect the limited liability of its Limited Partners or (*iii*) adversely affect the treatment of such Fund as a partnership for federal income tax purposes, or, if no such opinion has been obtained within 45 days of notification of the required percentage of Limited Partners wishing to take such action, the Fund's not receiving an opinion of such counsel within such time period to the effect that the possession or exercise of such right would substantially increase the likelihood of such adverse effects. The foregoing provision will not apply to the exercise by Limited Partners of any voting rights required by the Investment Company Act or the Delaware Act.

Amendment

The General Partners of a Fund may amend the related Partnership Agreement as provided in Section 10.2 of the Partnership Agreement.

Limitation on Liability of the General Partners

Each Partnership Agreement provides that none of the General Partners of a Fund or any of their affiliates shall be liable, responsible or accountable in damages or otherwise to such Fund or any Limited Partner for any loss or damage incurred by reason of any act or omission performed or omitted by such General Partner or affiliate in good faith and reasonably believed by such General Partner or affiliate to be in or not opposed to the best interests of such Fund and to be within the scope of the authority granted to it by the Partnership Agreement or by law or by the consent of the Limited Partners, provided that such General Partner or affiliate is not guilty of gross negligence, willful misfeasance, bad faith or reckless disregard of its duties with respect to such acts or omissions (or, with respect to the Managing General Partner of such Fund or any of its affiliates, is not guilty of any of the foregoing, negligence or misconduct with respect to such acts or omissions).

Indemnification of the General Partners by a Fund

A Fund, out of its assets and not out of the assets of the General Partners (except insofar as Equitable Capital satisfies a claim by an Independent General Partner that such Fund has failed to satisfy), will, to the fullest extent permitted by law, indemnify and hold harmless any General Partner of such Fund and any of his or its affiliates who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether criminal, civil, administrative or investigative, by reason of any acts, omissions or alleged acts or omissions arising out of such person's or entity's activities as a General Partner, or as an affiliate of such General Partner, if such activities were performed in good faith and reasonably believed by such General Partner or affiliate to be in or not opposed to the best interests of such Fund and within the scope of the authority conferred by the Partnership Agreement or by law or were consented to by the Limited Partners of such Fund in accordance with the Partnership Agreement against losses, damages or expenses for which such person has not otherwise been reimbursed, provided that such person was not guilty of gross negligence, willful misfeasance, bad faith or reckless disregard of its duties with respect to such acts or omissions (or, with respect to the Managing General Partner of such Fund or any of its affiliates, was not guilty of any of the foregoing, negligence or misconduct with respect to such acts or omissions) and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. Absent the determination by a court that a General Partner or any of its or his affiliates seeking indemnification was not liable on the merits or guilty of disabling conduct within the meaning of Section 17(h) of the Investment Company Act, the decision by such Fund to indemnify a General Partner or any such affiliate must be based upon the reasonable determination of independent counsel or the Independent General Partners of such Fund not parties or otherwise interested in the proposed indemnification, after review of the facts, that such disabling conduct did not occur. A successful claim for indemnification by a General Partner of a Fund would reduce the assets of such Fund. Equitable Capital has agreed to indemnify the Independent General Partners for liabilities not arising out of gross negligence or willful misconduct to the extent a Fund has not fully indemnified the Independent General Partners for any such liability, up to an aggregate limit of $100 million.

Liability of Partners to Third Parties

The General Partners of a Fund will be liable for all general obligations of such Fund to the extent not paid by it. Each Partnership Agreement provides that no Limited Partner of the related Fund shall be personally liable for the debts of such Fund beyond the amount committed by such Limited Partner to its capital. In the event a Fund is unable otherwise to meet its obligations, the Limited Partners might, under applicable law, be obligated under some circumstances to return distributions previously received by them. In addition, Limited Partners of a Fund may be required to repay to such Fund any amount distributed which are required to be withheld for tax purposes.

Partners' Independent Activities

The Partnership Agreement of each Fund provides that the General Partners of such Fund (as well as any Limited Partner of such Fund) and any shareholder, director, employee or affiliate thereof may engage in or possess an interest in other business ventures of every nature and description, whether or not such ventures are competitive with such Fund. Neither a Fund nor any Partner thereof will have any interest in any independent business venture of another Partner by virtue of the Partnership Agreement or any relationship created thereby.

Term and Termination

Each Fund will terminate on September 30, 1998, or ten years from the Final Closing of such Fund, if later, subject to the right of the Independent General Partners of each Fund to extend the term of such Fund for up to two additional one-year periods, if they determine that each such extension is in the best interests of the Fund, after which the Fund will liquidate any remaining investments as soon as practicable, but in any event within five years. Each Fund will dissolve upon the expiration of its term or upon the earlier occurrence of any one or more of the following events: (*i*) the adjudication of bankruptcy, incompetency or insanity, or the death, incapacity, dissolution, removal or resignation of all of its General Partners; (*ii*) the election to dissolve such Fund by a majority in interest of its Limited Partners (subject to the condition described under "Voting Rights of Limited Partners—Limitations on Voting Rights" above); (*iii*) the withdrawal, resignation, removal, incapacity or the dissolution or adjudication of bankruptcy of its Managing General Partner without the designation of a successor Managing General Partner; (*iv*) the sale or other disposition at any one time of all or substantially all of the assets of such Fund; or (*v*) the entry of a decree of judicial dissolution of such Fund by a court pursuant to the Delaware Act.

Upon dissolution of a Fund, the Managing General Partner of such Fund will liquidate, or the Independent General Partners will appoint a liquidating trustee to liquidate, all or any part of such Fund assets and distribute such assets or the proceeds thereof in accordance with Section 9.2 of the Partnership Agreement.

Appointment of General Partner as Attorney-in-Fact

Each Limited Partner of a Fund irrevocably constitutes and appoints Equitable Capital, as Managing General Partner of such Fund, such Limited Partner's true and lawful attorney-in-fact, with full power of substitution and with full power and authority in such Limited Partner's name, place and stead to make, execute, acknowledge and file all certificates and other instruments deemed advisable by Equitable Capital to permit such Fund to become or continue as a limited partnership, all instruments that effect a change or modification of such Fund in accordance with the Partnership Agreement or carry out the provisions of the Partnership Agreement or applicable law, all conveyances and other instruments deemed advisable by Equitable Capital to effect the dissolution and termination of such Fund, including a certificate of cancellation, and all other instruments that may be required or permitted by law to be filed on behalf of such Fund.

Distinctions from Corporate Form

Each Fund is organized in the form of a limited partnership, which differs from the corporate form in a number of respects including management, the term of existence, liability of investors and taxation. A limited partnership is managed by one or more general partners whereas a corporation is managed by a board of directors. The term of a limited partnership is fixed whereas a corporation typically has perpetual existence. Although limited partners and corporate shareholders generally have limited liability, under certain conditions the limited partners may have liabilities to third parties. See "Risk and Other Important Factors—Possible Loss of Limited Liability" and "Summary of the Partnership Agreement—Liability of Partners to Third Parties". For information with respect to the taxation of a limited partnership, see "Certain Federal Income Tax Considerations".

Principal Office of the Funds

The principal business office of each Fund shall be at 1285 Avenue of the Americas, New York, New York 10019, unless changed by the General Partners of such Fund. The business of each Fund may also be conducted at such additional places as the General Partners of such Fund may determine. Limited Partners should contact the Administrator with respect to any questions concerning their Fund accounts. The address and telephone number of the Administrator are as follows: ML Fund Administrators Inc., Merrill Lynch World Headquarters, North Tower, New York, New York 10281-1201, (212) 449-2006.

Applicable Law

Each Partnership Agreement will be construed and enforced in accordance with the laws of the State of Delaware.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following is a description of certain federal income tax consequences of an investment in a Fund and a very limited discussion of certain state and local tax considerations. A separate discussion of the federal income tax and ERISA matters applicable to employee benefit plans such as pension funds, Keogh plans and individual retirement accounts and other Tax-Exempt Investors appears below in "Tax and ERISA Considerations for Tax-Exempt Investors", and a separate discussion of the federal tax matters applicable to foreign investors appears below in "Federal Tax Considerations for Foreign Investors".

The statements in this discussion are based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing and currently proposed Treasury Regulations ("Regulations") under the Code, legislative history of the Code, existing administrative rulings and practices of the Internal Revenue Service ("IRS") and judicial decisions. No assurance can be given that legislative, judicial or administrative changes will not be forthcoming which would affect the accuracy of any statements in this discussion. Any such changes may or may not be retroactive with respect to transactions entered into or contemplated prior to the effective date of such changes. Prospective Limited Partners should also be aware that, although each Fund intends to adopt positions it believes are in accord with current interpretations of the federal income tax law, the IRS may not agree with the tax positions taken by a Fund and that, if challenged by the IRS, such Fund's tax positions might not be sustained by the courts.

ACCORDINGLY, EACH PROSPECTIVE LIMITED PARTNER IS URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISOR WITH RESPECT TO SUCH PARTNER'S OWN TAX SITUATION, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL AND OTHER TAX LAWS AND ANY POSSIBLE CHANGES IN THE TAX LAWS AFTER THE DATE HEREOF.

Recent Legislation

On December 22, 1987, the Omnibus Budget Reconciliation Act of 1987 (the "1987 Act") was enacted. Certain significant provisions of the 1987 Act are discussed below.

Publicly-Traded Partnerships Treated as Corporations. The 1987 Act provides for the taxation of certain "publicly-traded partnerships" as corporations. A partnership is a publicly-traded partnership if (*i*) interests in such partnership are traded on an established securities market or, (*ii*) interests in such partnership are readily tradeable on a secondary market (or the substantial equivalent thereof). Interests in the Funds will not be listed for trading on an established securities market and Equitable Capital will use its best efforts to ensure that Units will not be readily tradeable on any secondary market (or substantial equivalent thereof). There can be no assurance, however, that such efforts will be successful. A Limited Partner may not transfer a Unit unless he, she or it represents and provides other documentation satisfactory in form and substance to Equitable Capital that such transfer was not effected through a broker-dealer or matching agent which makes a market in Units or which provides a readily available, regular and ongoing opportunity to Unitholders to sell or exchange their Units through a public means of obtaining or providing information of offers to buy, sell or exchange Units. In the case of the sale of a Unit in the Enhanced Yield Fund, Equitable Capital must determine that such sale, assignment or transfer will not, by itself or together with any other sales, transfers or assignments, substantially increase the risk of such Fund's being classified as a publicly-traded partnership. In the case of the sale of a Unit in the Enhanced Yield Retirement Fund, Equitable Capital must determine that such sale, assignment or transfer would not, by itself or together with any other sales, transfers or assignments, likely result in such Fund's being classified as a publicly-traded partnership. A transferor will not be required to make the representations described above if he, she or it represents that the transfer is effected through an agent whose procedures have been approved by Equitable Capital as consistent with the requirements for avoiding classification as a publicly-traded partnership.

On June 17, 1988, the Internal Revenue Service issued Advance Notice 88-75 (the "Notice"). The Notice provides certain safe harbors which, if satisfied by a partnership, will result in interests in the partnership not being treated as readily tradable on a secondary market or the substantial equivalent thereof. The Notice provides in relevant part that interests in a partnership will not be considered readily tradable on a secondary market or a substantial equivalent thereof within the meaning of 7704(b) of the Code for a taxable year of the partnership if the sum of the percentage interests in partnership capital or profits represented by partnership interests that are sold or otherwise disposed of during the taxable year does not exceed 5% (2% in the case of a partnership that also relies on a separate matching service safe harbor described below) of the total interest in partnership capital or profits (the "5% Safe Harbor"). For this purpose, the following transfers, as well as certain redemptions (collectively, "Safe-Harbor Transfers"), will be disregarded: (i) transfers in which the basis of the partnership interest in the hands of the transferee is determined, in whole or in part, by reference to its basis in the hands of the transferor or is determined under section 732 of the Code; (ii) transfers at death; (iii) transfers between members of a family (as defined in section 267(c)(4) of the Code); (iv) the issuance of interests by or on behalf of the partnership in exchange for cash, property, or services; (v) distributions from a retirement plan qualified under section 401(a); and (vi) block transfers. (The term "block transfer" means the transfer by a partner in one or more transactions during any thirty calendar day period of partnership interests representing in the aggregate more than 5 percent of the total interest in partnership capital or profits.) The Notice also provides that sales through a matching service ("Matched Sales") will be disregarded (the "Matching Service Safe Harbor") for purposes of determining whether partnership interests are to be considered readily tradable on a secondary market or the substantial equivalent thereof if: (i) at least a 15 calendar day delay occurs between the day the matching agent receives written confirmation from the listing customer that an interest in a partnership is available for sale (the "contact date") and the earlier of (A) the day information is made available to potential buyers regarding the offering of such interest for sale, or (B) the day information is made available to the listing customer regarding the existence of any outstanding bids to purchase an interest in such partnership at a stated price; (ii) the closing of the sale effected through the matching service does not occur prior to the 45th calendar day after the contact date; (iii) the listing customer's information is removed from the matching service within 120 calendar days after the contact date; (iv) following any removal (other than removal by reason of a sale of any part of such interest) of the listing customer's information from the matching service, no interest in the partnership is entered into the matching service by such listing customer for at least 60 calendar days; and (v) the sum of the percentage interests in partnership capital and profits represented by partnership interests that are sold or otherwise disposed of other than in Safe-Harbor Transfers during the taxable year of the partnership does not exceed 10 percent of the total interest in partnership capital and profits. If a partnership relies on the Matching Service Safe Harbor for its Matched Sales, the 5% Safe Harbor is applied (to sales other than Safe-Harbor Transfers and Matched Sales) by substituting 2% for 5%. Each Partnership Agreement contains provisions designed to cause the respective Fund to satisfy at least one of such safe harbors. Each Partnership Agreement also provides that any transfer of Units to a market maker will be null and void. Equitable Capital has also represented that it intends to exercise its discretion regarding transfers in a manner designed to prevent the Fund from becoming a publicly-traded partnership. Accordingly, it is not anticipated that either of the Funds will be a publicly-traded partnership. See "Classification as a 'Partnership'" below. There can be no assurance, however, that Equitable Capital will be successful in its efforts. Moreover, if necessary to avoid conflict with the Employee Retirement Income Security Act of 1974, as amended, the Enhanced Yield Retirement Fund may amend its Partnership Agreement in ways that increase the risk of its classification as a publicly-traded partnership. In addition, regulations may be adopted that would cause a Fund to be treated as a publicly-traded partnership. Investors are urged to consider ongoing developments in this area.

The 1987 Act provides an exception to the "publicly-traded partnership" provision for certain publicly-traded partnerships with passive type income such as the Funds. However, the exception does not apply to a partnership which would be a "regulated investment company" described in section 851(a) of the Code if it were a domestic corporation. It is contemplated that each Fund will be such a partnership and, accordingly, will not be able to rely on such passive income exception.

Unrelated Business Taxable Income. Generally, a tax-exempt partner in a partnership which earns income of the type earned by the Funds is not subject to tax on such income except for income subject to "acquisition indebtedness." See "Tax and ERISA Considerations for Tax-Exempt Investors." Under the 1987 Act, all of a tax-exempt partner's proportionate share of income from a publicly-traded partnership (as described above under "Publicly-Traded Partnerships Treated as Corporations") will be subject to tax. As discussed above, however, it is not anticipated that either of the Funds will be a publicly-traded partnership. Accordingly, investors in a Fund should not be affected by this provision.

The Secretary of the Treasury has been directed by Congress to complete a study of the taxation of publicly-traded partnerships by January 1, 1989. Debevoise & Plimpton, counsel to the Funds ("Counsel"), cannot predict whether any additional provisions affecting the taxation of limited partnerships will eventually be enacted, or in what form they may be enacted. Accordingly, each investor should consult his personal tax advisor about the effect of any changes in the tax laws after the date hereof.

Classification as a "Partnership"

Neither Fund has requested, and neither Fund intends to request, an advance ruling by the IRS that it will be treated as a partnership for federal income tax purposes. The IRS would likely deny any such request since neither Fund will satisfy all of the requirements contained in published IRS Procedures for obtaining such a ruling. Instead, at the time of the admission of investors as Limited Partners in a Fund, Counsel will deliver its opinion to such Fund that it will be classified as a partnership for federal income tax purposes. The opinion of Counsel regarding partnership status will be based upon certain representations of Equitable Capital. An opinion of counsel is not binding on the IRS, however, and no assurance can be given that the IRS will not challenge the status of a Fund as a partnership for federal income tax purposes. If such a challenge were sustained by a court, such Fund would be treated as a corporation for tax purposes, as described below. Based upon certain representations of Equitable Capital and MLPF&S, counsel will also deliver its opinion to each Fund at the time of the admission of investors as Limited Partners in such Fund that such Fund will not be a publicly-traded partnership taxable as a corporation. However, continued eligibility of such Fund for classification as a partnership will depend on no adverse changes or interpretation of law and on such Fund and Equitable Capital exercising their authority so as to prevent such Fund from becoming a publicly-traded partnership as described above. See "Recent Legislation—Publicly-Traded Partnerships Treated as Corporations" above.

Treasury Regulations provide that, in the absence of other significant relevant factors, an unincorporated organization will not be treated as a corporation for tax purposes unless it has more corporate characteristics than non-corporate characteristics. The major corporate characteristics considered are continuity of life, limited liability, free transferability of interests and centralized management.

Although each Fund may be considered to have the corporate characteristic of centralized management, based in part upon the representation of Equitable Capital, as the Managing General Partner, that it has substantial assets that may be reached by creditors of each Fund and that each Fund will at all times be operated in accordance with the Partnership Agreement and applicable state partnership law, Counsel believes that each Fund will lack the corporate characteristics of continuity of life, limited liability and free transferability under applicable Regulations. Accordingly, each Fund will not have more corporate characteristics than non-corporate characteristics and, in the opinion of Counsel, each Fund will be treated as a partnership for federal income tax purposes. However, there can be no assurance that the current statute or Regulations with respect to classification of an entity as a partnership will not be amended in the future. While Counsel expects that any such amendment would have prospective effect only and is not likely to have an adverse effect on either Fund, there can be no assurances in this regard.

If for any reason a Fund were taxable as a corporation, capital gains and losses and other income and deductions of such Fund would not be passed through to the Limited Partners, and the Limited Partners would be treated as shareholders for tax purposes. Since neither Fund is expected to meet the eligibility requirements for the tax treatment available to certain regulated investment companies registered as such under the Investment Company Act, such Fund would be required to pay income tax at corporate tax rates on its net income, thereby reducing the amount of cash available for distribution to the Limited Partners. Any distributions by such Fund to each Limited Partner would be taxable to that Limited Partner as a dividend, to the extent of that Partner's share of such Fund's current and accumulated earnings and profits, and treated as gain from the sale of a Fund interest to the extent it exceeded both the current and accumulated earnings and profits of such Fund and the Limited Partner's tax basis for his interest. In addition, such Fund could incur income tax upon its deemed incorporation if at such time its liabilities exceeded its adjusted basis in Fund assets.

Proposals to reclassify widely held or publicly traded limited partnerships as corporations for federal income tax purposes have been suggested on a number of occasions by Treasury and in the Congress in recent years. Under the 1987 Act, certain publicly-traded partnerships are taxable as corporations. See "Recent Legislation" above. Based upon anticipated Fund operations, including the provisions of the Partnership Agreements designed to comply with the safe harbors contained in the Notice described above under "Recent Legislation" and the intention of Equitable Capital, as Managing General Partner, to restrict substantially sales of Units to the extent necessary to avoid the creation of a secondary market for Units (or a substantial equivalent thereof) neither Fund expects that such provision of the 1987 Act will apply to it. However, no assurance can be given, however, that the IRS will concur with this view. Moreover, regulations may be adopted that would cause a Fund to be treated as a publicly-traded partnership. In addition, it cannot be predicted whether additional legislation that would tax widely held limited partnerships as corporations will ever be enacted and, if enacted, whether any such legislation would be applied to a Fund. Unitholders, therefore, are strongly urged to consider ongoing developments in this area and to consult their own tax advisors in assessing the tax consequences of an investment in either Fund with respect to their own personal tax situations.

Income Taxation of Investors in the Funds

The Code provides that a partnership is not itself subject to federal income taxation. Rather, each Limited Partner will be required to take into account in computing his federal income tax liability his allocable share of such Fund's capital gains and capital losses and other income, losses, deductions, credits and items of tax preference for any taxable year of such Fund ending within or with the taxable year of such Limited Partner, without regard to whether he has received or will receive any distribution from such Fund. Fund revenues may be retained by a Fund for Follow on Investments or to repay any Fund borrowings. In addition, certain of the Enhanced Yield Investments and Temporary Investments which the Funds purchase may include zero coupon or other obligations having original issue discount. For federal income tax purposes, amortization of original issue discount will be attributable to Partners as interest income even though the Funds do not realize any cash flow as a result of such amortization. While each of the Funds expects that it will have sufficient cash flow to permit it to make annual distributions in the amount necessary to permit Partners to pay all federal income tax liabilities resulting from ownership of interests in such Fund, there can be no assurance that it will be able to do so. Each Fund is required to (*i*) file annually an information return on IRS Form 1065 and, following the close of such Fund's taxable years, (*ii*) provide to each Partner a Schedule K-1 indicating such Partner's allocable share of each Fund's income, gain, losses, deductions, credits, and items of tax preference. Assignees of Limited Partners who are not admitted to a Fund will not receive any tax information from such Fund.

Limitation on Deductions

A Limited Partner's ability to use his share of Fund losses to offset his income from other sources is subject to certain limitations. The amount of any such loss which may be used to offset other income in a given year is limited to the lesser of (*i*) the Limited Partner's adjusted tax basis for his interest in such Fund as of the end of the year in which the loss is incurred and (*ii*) in the case of individuals and certain closely held corporations, the amount which the Limited Partner is deemed under Section 465 of the Code to have "at risk" in such Fund. See "Amount "At Risk"" below. Moreover, the full excess amount of a noncorporate taxpayer's capital losses in a given year that exceed such taxpayer's capital gain in such year will be allowed as a deduction only to the extent of $3,000 of ordinary income ($1,500 for married taxpayers filing separate returns). See "Other Tax Considerations—Capital Gains and Losses—Individual Capital Gains" below. Corporate taxpayers are allowed to offset capital losses in full against capital gains, but not against ordinary income. However, excess capital losses may be carried back three years and carried forward five years. See "Other Tax Considerations—Capital Gains and Losses—Corporate Capital Gains" below.

In addition to the limitations on deductions discussed above, individuals, certain closely-held corporations and certain noncorporate taxpayers are prohibited from using trade or business losses sustained by limited partnerships and other businesses in which the taxpayer does not materially participate to offset income from other sources. This so-called "passive activity loss" limitation should not apply to limit losses sustained by a Fund since such Fund's investment activities are not expected to rise to the level of carrying on a trade or business for this purpose. See "Passive Activity Loss Limitation" below. It is anticipated that an individual Limited Partner's ability to deduct his proportionate share of Fund expenses will also be subject to the limitation in section 67(a) of the Code on certain itemized deductions. See "Deductibility of Operating Expenses and Payments to the General Partners and Investment Adviser" below.

Basis in Fund Interest

A Limited Partner's adjusted tax basis in his interest in a Fund (*i*) will be equal to the amount of his cash contribution to such Fund for Units, (*ii*) will be increased by his allocable share of (*a*) items of Fund taxable income and gain and tax-exempt income and (*b*) nonrecourse indebtedness of such Fund, if any (allocated among the Partners in accordance with profit sharing ratios), and (*iii*) will be reduced, but not below zero, by his allocable share of (*a*) items of Fund tax deduction and loss, (*b*) distributions by such Fund or constructive distributions resulting from a reduction in such Partner's share of Fund indebtedness and (*c*) allocations to him of expenditures of the partnership described in Section 705(a)(2)(B) of the Code not deductible in computing its taxable income and not properly chargeable to his capital account.

If recognition of a Limited Partner's distributive share of Fund losses would reduce the tax basis of the Partner's interest in such Fund below zero, the recognition of such losses is deferred until such time as the recognition of such losses would not reduce the Limited Partner's basis below zero. To the extent that Fund cash distributions, or any decrease in a Limited Partner's share of the nonrecourse indebtedness of such Fund (which is considered a constructive cash distribution to the Partners), would reduce a Limited Partner's basis below zero, such distributions constitute taxable income to the recipient Limited Partner. If the Limited Partner is not a "dealer" in securities, the distribution will normally represent a capital gain, which will be long-term provided such Fund interest has been held for longer than the capital gains holding period (currently one year). As described at "Other Tax Considerations—Capital Gains and Losses" below, under current law, the same tax rates apply to capital gains that apply to ordinary income.

Amount "At Risk"

Under Section 465 of the Code, individuals and certain closely-held corporations are entitled to deduct their distributive shares of partnership losses attributable to partnership activities only to the extent of the amount they are considered "at risk" with respect to their partnership interests at the end of the taxable year.

A Limited Partner in a Fund initially will be considered "at risk" with respect to his Fund interest to the extent of the cash contributed to such Fund for Units, provided such Units are not financed with borrowings from persons with certain interests (other than as a creditor) in such Fund activities or with borrowings solely secured by Units. While a Limited Partner's tax basis in his Units will be increased by his allocable share of any nonrecourse liabilities of such Fund (see "Basis in Fund Interest" above), such liabilities are not includable in the Partner's amount "at risk".

The amount a Limited Partner is "at risk" in a Fund will be increased by, among other things, his share of such Fund's ordinary income and capital gain. A Limited Partner's amount "at risk" will be reduced by (*i*) all Fund distributions to, or on behalf of, the Partner and (*ii*) his share of Fund deductions and losses. The Partner's share of Fund deductions and losses over Fund income not allowable in any year as a result of the "at risk" limitation is carried forward until such time, if ever, as it is allowable under the "at risk" rules.

Under normal operating results of each Fund, the General Partners do not anticipate that the Limited Partners will be subject to any deferral of losses by reason of the "at risk" rules. However, the timing, duration and extent of any deferral of losses as a consequence of the "at risk" limitation will depend upon the amount of Fund revenue and expenses and the amount and the terms of Fund leverage. In any event, prospective Limited Partners should consider the effect of the "at risk" rules in arranging any financing for a purchase of Units.

Passive Activity Loss Limitation

Under the passive activity loss provisions of the 1986 Act, losses and credits from trade or business activities in which a taxpayer does not materially participate (*i.e.*, "passive activities") will only be allowed against income from such activities (subject to a five-year phase-in rule, in the case of pre-1986 Act investments). Therefore, such losses cannot be used to offset salary or other earned income, active business income or "portfolio income" (such as dividends, interest, royalties and nonbusiness capital gains) of the taxpayer. Losses and credits suspended under this limitation can be carried forward indefinitely and can be used in later years against income from passive activities. Moreover, a taxable disposition by a taxpayer of the entire interest in a passive activity will cause the recognition of any suspended losses attributable to that activity. The passive activity loss limitation applies to individuals, estates, trusts and, with limited exceptions, personal service corporations. A modified form of the rule also applies to certain closely-held corporations. Under the 1987 Act, losses of a partnership classified as a publicly-traded partnership are also characterized as passive losses from a separate activity. As discussed above, however, it is not anticipated that either Fund will be classified as a publicly-traded partnership. See "Recent Legislation—Publicly-Traded Partnerships Treated as Corporations".

Counsel believes that the activity of each Fund would not be considered a trade or business activity to which the passive activity loss provisions described above would apply, but rather an investment activity of the Limited Partner for the investment, holding and eventual disposition of stock and debt securities (*e.g.*, portfolio assets). Accordingly, a Limited Partner's proportionate share of any losses from such Fund should not be subject to disallowance under the passive activity loss limitation. On the other hand, as portfolio income, a Limited Partner's proportionate share of ordinary income (whether dividend or interest income) and capital gain from such Fund may not be offset by such Partner's losses, if any, from passive activities subject to the loss limitation rules described above. Moreover, it is possible that under regulations to be promulgated in the future, the activity of each Fund will be characterized as an activity which, for the purpose of the passive loss provisions, is treated as a separate trade or business even though such activity does not otherwise constitute the conduct of a trade or business. Accordingly, a prospective Limited Partner should not invest in either Fund with the expectation of having his share of income and capital gain from such Fund offset by losses from his interests in passive activities.

Allocation of Fund Income, Gains and Losses

Each Partnership Agreement provides generally that Profits and Losses for tax purposes will be determined and allocated as of the end of each calendar year. Profits and Losses will be allocated first to reflect cash distributions made or scheduled to be made (other than as to distributions of capital), and thereafter in a manner designed to reflect cash distributions that, on the basis of certain assumptions, are projected to be made. In addition, each Partnership Agreement provides for special distributions to the extent of available cash to Limited Partners in proportion to interim net investment income and interest prior to the final Closing.

For federal income tax purposes, a partner's distributive share of partnership income, gain, deduction, loss or credit generally is determined in accordance with the terms of the partnership agreement. However, under Code Section 704, the allocation of such items pursuant to the partnership agreement generally must have "substantial economic effect" to be recognized for federal income tax purposes.

Under Treasury Regulations, an allocation of partnership income, gain, loss or deduction (or item thereof) to a partner will be considered to have "substantial economic effect" if it is determined that (*i*) the allocation has "economic effect" and (*ii*) that economic effect is "substantial". An allocation of tax items to partners will be considered to have "economic effect" if (*i*) the partnership maintains capital accounts in accordance with specific rules set forth in such Regulations and such allocation is reflected through an appropriate increase or decrease in the partners' capital accounts, (*ii*) liquidating distributions (including liquidations of a partner's interest in the partnership) are required to be made in accordance with the partners' respective capital account balances, and (*iii*) any partner with a deficit in his capital account following the distribution of liquidation proceeds would be unconditionally required to restore the amount of such deficit to the partnership. If the first two of these requirements are met, but the partner to whom an allocation is made is not obligated to restore the full amount of any deficit balance in his capital account, the allocation still will be considered to have "economic effect" to the extent the allocation does not cause or increase a deficit balance in the partner's capital account (determined after reducing that account for certain "expected" adjustments, allocations, and distributions specified by the Regulations) if the partnership agreement contains a "qualified income offset".

Each Partnership Agreement provides that a capital account is to be maintained for each Partner, that the capital accounts are to be maintained generally in accordance with applicable tax accounting principles set forth in the Regulations, and that allocations of federal tax items to a Partner are to be reflected by an appropriate increase or decrease in the Partner's capital account accept as otherwise permitted by applicable Regulations. In addition, distributions on liquidation of the Fund (or of a Partner's interest) are to be made in accordance with respective positive capital account balances. Although the Partnership Agreement does not impose any obligation on the part of Partners to restore any deficit in their capital account balances following liquidation, the Partnership Agreement does contain a "qualified income offset" provision as defined in the Regulations.

In order for the "economic effect" of an allocation to be considered "substantial", the Regulations require that the allocation must have a "reasonable possibility" of "substantially" affecting the dollar amounts to be received by the partners, independent of tax consequences. In applying the substantiality test, tax consequences that result from the interaction of the allocation with such partner's tax attributes which are unrelated to the partnership must be taken into account.

If any Limited Partners purchase their units of limited partnership interest at a premium in excess of $1,000 per unit subscription price, each Partnership Agreement provides for certain adjustments to the capital accounts of the previously admitted Partners, and for special allocations of taxable income and loss to reflect unrealized appreciation in the Fund at the time of admission of the new Limited Partners which is subsequently realized by the Fund. Although the special tax allocations do not have substantial economic effect because they do not affect a Partner's capital account, these adjustments and special allocations are generally consistent with Regulations that permit revaluation of capital accounts and special allocations under circumstances such as the admission of new partners to a partnership.

Based upon the Regulations, subject to the discussion below with respect to section 706(d) of the Code, Counsel is of the opinion that the tax allocations of income, gain, loss, deduction, and credit under the Partnership Agreements for federal income tax purposes would more likely than not be respected by the IRS in all material respects to the extent such allocations do not result in any Limited Partner having a deficit in his capital account balance or in the Managing General Partner having a deficit in his capital account in excess of the outstanding principal amount of its promissory note to the Fund. Counsel has advised each Fund that allocations to Partners that actually result in such deficit capital account balances likely would not be recognized for federal income tax purposes in the absence of an obligation to restore deficit capital account balances. It is extremely unlikely, however, that either Fund's operations will result in any Limited Partner having a deficit balance in his capital account.

If any allocation fails to satisfy the "substantial economic effect" requirement, the allocated items would be allocated among the Partners based on their respective interests in the applicable Fund, determined the basis of all of the relevant facts and circumstances. Such a determination might result in the income, gains, losses or deductions allocated under the applicable Partnership Agreement being reallocated among the Limited Partners and the General Partners. Such a reallocation, however, would not alter the distribution of cash flow under either Partnership Agreement, but might result in a possible mismatching of taxable income and cash distributed to the Partners.

In the event of a transfer of an interest in a Fund during the course of the taxable year of such Fund, tax allocations of income, gain, losses and deductions of such Fund between the transferor and the transferee will be made as described under "Allocations and Distributions—Allocations and Distributions upon Transfers of Units by Limited Partners". Section 706(d) of the Code contains rules governing allocations among the partners whose interests in a partnership vary during the taxable year. It is unclear whether the Fund's method of allocating income between a transferor and a transferee of a Unit will be respected by the IRS and, accordingly, counsel has expressed no opinion on this matter.

Deductibility of Operating Expenses and Payments to the General Partners and Investment Adviser

Section 67(a) of the Code provides that an individual is allowed a deduction for itemized expenses incurred for the production of income only to the extent such expenses, combined with certain other itemized deductions, in the aggregate exceed 2% of such individual's adjusted gross income. Accordingly, because it is anticipated that Fund expenses will not be deductible as trade or business expenses, but rather as investment expenses, individuals who are Limited Partners would be affected by this limitation. To the extent certain Fund expenses are nondeductible under this limitation, Limited Partners who are individuals may have to recognize net taxable income in an amount greater than cash available from the Fund for distribution to the Partners.

In light of these provisions, neither Fund currently anticipates that an individual investor in such Fund will be able to claim his proportionate share of the fees paid to the General Partners and the Investment Adviser and their affiliates and certain other Fund expenses as a deduction. An individual investor in such Fund should rely on relevant legal authorities, including recently Proposed and Temporary Regulations, in making a determination as to the deductibility of such expenses. It is also possible that the IRS would claim that a portion of the fees actually represent additional offering and organizational costs and thus are not currently deductible to such extent. See "Fund Organization and Syndication Fees" below. In addition, the IRS could contend that a portion of such fees are allocable to the acquisition of Fund investments and thus should be capitalized as part of the cost of such investments. As all of the facts regarding the nature of the services to be rendered are not known and may vary according to the circumstances presented, it is not practicable to predict whether all or a portion of such fees would be deductible if challenged, and there can be no assurance that any such challenge would not be upheld.

Fund Organization and Syndication Fees

The Funds will pay their organizational expenses and offering expenses and any organizational and offering expenses incurred by Equitable Capital, the Administrator and their affiliates on behalf of the Funds which do not exceed $6,000,000. The organizational and offering expenses will be allocated between the Funds pursuant to the ratio of Units sold by each Fund.

Expenses connected with the syndication of Fund interests (for example, selling commissions, promotional expenses and most of the printing costs and professional fees incurred in connection with preparation and registration of this Prospectus) are not deductible by a Fund or the Limited Partners. Such costs must be capitalized and may result in a reduction of any gain (or an increase in any loss) realized by the Limited Partners for tax purposes upon the termination of such Fund.

Any expenses paid by a Fund which constitute organization expenses also must be capitalized, but may be amortized over a period of not less than 60 months beginning in the month such Fund begins business (as defined under the Code). Under Regulation Section 1.709-2, examples of organizational expenses of a partnership include "legal fees for services incident to the partnership, such as negotiation and preparation of a partnership agreement; accounting fees for establishing a partnership accounting system; and necessary filing fees." If a Fund is liquidated within the 60-month period, such Fund should be able to deduct the balance of the deferred expenses.

Sale or Other Disposition of a Fund Interest

The amount of gain recognized on the sale by a Limited Partner of his interest in a Fund generally will be the excess of the sales price received over his adjusted basis in such interest. The sale by a Limited Partner of an interest held by him for more than one year generally will result in his recognizing long-term capital gain or loss (provided such Limited Partner is not deemed to be a "dealer" in such property). However, to the extent the proceeds of sale are attributable to such Limited Partner's allocable share of Fund "unrealized receivables" or "substantially appreciated inventory", as defined in Section 751 of the Code, any gain will be treated as ordinary income. It is not anticipated that either Fund will have significant amounts, if any, of "unrealized receivables" or "substantially appreciated inventory" items. The sale by a Limited Partner of an interest held by him for not more than one year generally will result in the recognition of short-term capital gain or loss. Under current law, the same rates apply to capital gains that apply to ordinary income. However, there are limitations imposed on the deduction of capital losses against ordinary income. See "Other Tax Considerations—Capital Gains and Losses".

It is not expected that a transfer of an interest in a Fund by gift or upon death will result in recognition of gain or loss. In general, the recipient of an interest in such Fund by gift will have a tax basis in that interest equal to the transferor's basis increased by the amount of any gift tax paid on the transfer. The recipient of such an interest resulting from a transfer upon death generally would have a tax basis in such interest equal to the fair market value of the interest at the date of death or, where applicable, the estate tax alternate valuation date.

Section 754: Election to Adjust Basis

Section 754 of the Code permits a partnership to make an election to adjust the basis of the partnership's assets in the event of a distribution of partnership property to a partner or a transfer of a partnership interest. Depending upon the particular facts at the time of any such event, such an election could increase the value of a partnership interest to the transferee (because the election would increase the basis of the partnership's assets for the purpose of computing the transferee's allocable share of partnership income, gains, deductions and losses) or decrease the value of a partnership interest to the transferee (because the election would decrease the basis of the partnership's assets for that purpose). It is unlikely that the General Partners would make such an election on behalf of either Fund because (*i*) an election under Section 754, once made, cannot be revoked without obtaining the consent of the Commissioner of Internal Revenue, (*ii*) such an election may not necessarily be advantageous to all Limited Partners, and (*iii*) accounting complexities can result from having such an election in effect.

Termination of the Funds for Tax Purposes

Because of the absence of an established market for the Units, and because investments in a Fund most likely will be made primarily with a view toward realizing long-term capital appreciation, it is not anticipated that 50% or more of the capital and profits interests in either Fund will be sold or exchanged within any single 12-month period. However, if 50% or more of such interests were sold or exchanged within any single 12-month period, such Fund would be deemed to have terminated for federal income tax purposes. Among other tax consequences, the effect to a Limited Partner of such a deemed termination would be that he would recognize gain to the extent that his allocable share of such Fund's cash on the date of termination exceeded the adjusted tax basis of his interest in such Fund.

Dissolution of the Fund

The dissolution of a Fund will involve the distribution to the Limited Partners of any assets remaining after payment of all such Fund's debts and liabilities. A Limited Partner generally will recognize a capital gain to the extent, if any, he receives money in excess of the basis of his interest in such Fund. Unless the Fund distributes any asset in kind, a Limited Partner generally will recognize a capital loss to the extent, if any, that the adjusted basis of his interest in the Fund exceeds the amount of money received in a liquidation distribution. However, if the Limited Partner receives as a liquidating distribution any property other than money, "unrealized receivables" or "inventory items", then no loss will be recognized.

Income, gain, losses, deductions, credits and items of tax preference of a Fund realized prior to the dissolution of such Fund will be allocated to the Limited Partners in accordance with the Partnership Agreement.

Administrative Matters

Tax Returns and Information; Audits

Each Fund has adopted the calendar year as its tax year. Section 448 of the Code requires entities such as a Fund, in which interests are publicly offered for sale pursuant to a registration statement under the Securities Act of 1933, to adopt an accrual method of accounting for federal income tax purposes. Within 75 days or as soon as practicable after the close of the calendar year, each Fund will furnish each Limited Partner copies of (*i*) such Fund Schedule K-1 indicating the Partner's distributive share of tax items and (*ii*) such additional information as is reasonably necessary to permit the Limited Partners to prepare their own federal, state and local income tax returns.

The Code provides for a single unified audit at the partnership level rather than separate audits of individual partners. Such unified partnership audit procedures may increase the likelihood of IRS audits for organizations such as a Fund. Under this procedure, a "Tax Matters Partner" must be appointed to represent the partnership in connection with IRS audits and other administrative and judicial proceedings. Equitable Capital, or the Managing General Partner, will act as Tax Matters Partner of each Fund. The IRS must send notice of a commencement of a partnership level audit to each partner with 1% or more interest in the partnership and to the Tax Matters Partner. All partners may participate in administrative proceedings relating to the determination of partnership items; however, the Tax Matters Partner has the primary responsibility for representing the partnership in an audit and for contesting any adverse determinations. A settlement agreement between the IRS and one or more partners binds all parties to the agreement, and all other partners not included in such settlement have the right to enter into consistent agreements. The final result of the partnership proceeding will be binding on all partners (other than partners agreeing to or being bound by a separate settlement with the IRS), and any resulting deficiency may be assessed and collected by notice and demand at any time after the determination becomes final.

The Code also provides that (*i*) a partner must report a partnership item consistent with its treatment on the partnership return, unless the partner files a statement which identifies the inconsistency, and (*ii*) that statute of limitations for assessment of tax with respect to partnership items (or affected items) under the partnership level proceedings generally will be three years from the date of filing of the partnership return or the last date without extension for filing such return, whichever date is later. Notwithstanding the partnership level audit procedures, the IRS may assess a deficiency against any partner where treatment of an item in his individual return is inconsistent with the treatment on the partnership return.

Any costs which a Fund or the General Partners may incur with respect to a "unified" partnership audit and related administrative or judicial proceedings would reduce the cash otherwise available for distribution to the Partners or would otherwise be borne by the Partners.

Tax Shelter Registration

The Tax Reform Act of 1984 provides that any person who organizes a tax shelter must register such tax shelter with the IRS and provide investors in the tax shelter with the tax shelter registration number assigned by the IRS. A "tax shelter" for purposes of the registration requirements is one in which a person could reasonably infer, from the representations made in connection with any offer for sale of any interest in the investment, that the "tax shelter ratio" for any investor may be greater than 2 to 1 as of the close of any of the first 5 years ending after the date on which the investment is offered for sale. The term "tax shelter ratio" is the ratio that the aggregate amount of gross deductions plus 350% of the credits that are potentially allowable to an investor bears to the partner's investment base for the year.

THE MANAGING GENERAL PARTNER OF EACH FUND REPRESENTS THAT AN INVESTMENT IN SUCH FUND IS NOT PROJECTED TO REDUCE THE CUMULATIVE TAX LIABILITY OF ANY INVESTOR WITH RESPECT TO ANY YEAR OCCURRING WITHIN THE FIRST FIVE YEARS ENDING AFTER THE DATE ON WHICH UNITS OF SUCH FUND ARE FIRST OFFERED FOR SALE IN THE ABSENCE OF EVENTS WHICH ARE HIGHLY UNLIKELY TO OCCUR. THEREFORE, EACH FUND IS NOT INTENDED TO BE A "TAX SHELTER" FOR "TAX SHELTER REGISTRATION" PURPOSES. If, however, the income and deductions of a Fund are such that the cumulative tax liability of a Partner would be reduced in any of the first five years of such Fund's operations, then the Managing General Partner will register such Fund with the IRS as a "tax shelter" at that time, and each Partner would be required to include the "tax shelter" registration number on a form attached to the Partner's income tax return for any year in which any income, gain, deduction, loss or credit was claimed with respect to such Fund, beginning with the year in which such Fund is first registered as a "tax shelter".

Other Tax Considerations

Capital Gains and Losses

(a) *Individual Capital Gains.* Generally, capital gains of an individual are taxed at the same rates as ordinary income, and capital losses may be deducted in full against capital gains. Capital losses are also allowed to offset up to $3,000 of ordinary income. Capital losses in excess of the amount that can be deducted may be carried forward.

(b) *Corporate Capital Gains.* The Code provides an alternative tax on capital gains for corporations. Currently, the rate is 34%, the same rate that applies to ordinary income. Corporate taxpayers are allowed to offset capital losses in full against capital gains, but not against ordinary income; however, excess capital losses may generally be carried back three years and carried forward five years.

Limitations on the Deductibility of Interest

(a) *Investment Interest.* Prior to 1987, the Code limited noncorporate taxpayers from deducting "investment interest" (*i.e.*, interest on indebtedness incurred or continued to purchase or carry property held for investment) in any one tax year in excess of $10,000 ($5,000 in the case of a married person filing a separate return), *plus* the taxpayer's "net investment income", *plus* certain deductible expenditures in excess of rental income from net lease property.

For current years (subject to a phase-in provision, as discussed below), the Code limits the deduction of investment interest in any one tax year to the amount of "net investment income" of the taxpayer. Investment interest disallowed under this limitation is carried forward and treated as investment interest in succeeding taxable years. Thus, such carry-forward interest is deductible only to the extent the taxpayer has net investment income in succeeding tax years.

Investment interest includes interest expense properly allocable to portfolio income under the passive loss rule. Investment interest also includes interest expense properly allocable to an activity, involving a trade or business, in which the taxpayer does not materially participate, if that activity is not treated as a passive activity under the passive loss rule. On the other hand, investment interest does not include any interest that is taken into account in determining the taxpayer's income or loss from a passive activity or interest properly allocable to a rental real estate activity in which a taxpayer actively participates within the meaning of the passive loss rule.

"Net investment income" is defined as the excess of a taxpayer's investment income over investment expenses for the taxable year. Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment and amounts treated as portfolio income under the passive loss rule. Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. On the other hand, investment income and investment expenses do not include any income or expenses taken into account in computing income or loss from a passive activity. See "Taxation of the Funds—Passive Activity Loss Limitation". Moreover, income from a rental real estate activity in which the taxpayer actively participates is not included in investment income.

The investment interest limitation is not intended to disallow a deduction for interest which is disallowed under the rules relating to tax-exempt obligations. See "Interest Related to Tax-Exempt Obligations" below.

The investment interest limitations are phased in over the period 1987 to 1991. The phase-in generally applies to interest that would not have been disallowed under prior law. In such case, the taxpayer is allowed to deduct a portion of the newly disallowed interest. The amount of investment interest disallowed during the phase-in period is the excess over the amount of the prior law $10,000 ceiling ($5,000 in the case of married individuals filing a separate return, and zero in the case of a trust), *plus* the applicable percentage (60% in 1988; 80% in 1989; 90% in 1990; 100% in 1991 and thereafter) of the additional amount which would be disallowed without taking into account the prior law $10,000 ceiling.

In computing the investment interest limitation, for taxable years beginning on or after January 1, 1987 and before January 1, 1991, the amount of net investment income is reduced by the amount of losses from passive activities that is allowed as a deduction by virtue of the phase-in rule for passive losses. See "Taxation of the Funds—Passive Activity Loss Limitation". Any amount of investment interest that is disallowed under the investment interest limitation during or after the phase in period is not allowed as a deduction in a subsequent year except to the extent the taxpayer has net investment interest income in that subsequent year.

It is expected that interest paid by a Fund on its borrowings, if any, as well as any interest paid by a Limited Partner on borrowings incurred to purchase Units, will be considered "investment interest". However, it is also expected that any investment income from a Fund passed through to the Partners would qualify as "investment income" that would increase the amount of investment interest that each Limited Partner would be able to deduct.

Because the amount of any Partner's investment interest which would be subject to disallowance in any year would depend upon the amount of investment income generated by such Fund as well as investment income and expenses of the Partner from sources other than such Fund, the extent, if any, to which interest on Fund indebtedness would be subject to disallowance would depend upon the facts of such Partner's particular tax situation. In any event, prospective investors should consider the effect of the investment interest limitations in seeking to arrange debt financing of Units.

(b) *Interest Related to Tax-Exempt Obligations.* Section 265(a)(2) of the Code disallows any deduction for interest paid by a taxpayer on indebtedness incurred or continued for the purpose of purchasing or carrying tax-exempt obligations. Similarly, Section 265(a)(4) of the Code disallows any deduction for interest paid by a taxpayer to purchase or carry shares of stock in a regulated investment company that distributes exempt interest dividends during the taxable year of the holder. In the case of a Limited Partner owning a substantial portfolio of tax-exempt obligations or shares of stock in a regulated investment company that distributes exempt interest dividends, the IRS might take the position that the Limited Partner's allocable portion of any interest attributable to Fund borrowings (or any interest paid by the Limited Partner in connection with the purchase of Units) should be viewed as incurred to enable the Limited Partner to continue carrying such tax-exempt obligations or such shares of stock and, therefore, that the deduction of any such interest by the Limited Partner should be disallowed in whole or in part.

Alternative Minimum Tax

The alternative minimum tax, which applies to individuals, is determined by: (*i*) adding "tax preference" items to the individual's adjusted gross income (as reduced by certain itemized deductions and as otherwise adjusted pursuant to sections 56 and 58 of the Code), (*ii*) subtracting therefrom the statutory exemption ($30,000 for single taxpayers, $40,000 for married taxpayers filing joint returns; but such exemptions are phased out for alternative minimum taxable incomes above $112,500 for single taxpayers and $150,000 for joint returns) and (*iii*) computing a tax at the rate of 21% on the amount so calculated. If the alternative tax so computed exceeds the individual's regular tax, then he or she must pay an additional tax equal to the excess.

The corporate alternative minimum tax rate is 20% and there is a $40,000 exemption amount (phased out at the rate of 25 cents on the dollar for alternative minimum taxable income in excess of $150,000).

Each Limited Partner must include his or her allocable share of a Funds's tax preference items in the computation of the applicable minimum tax. It is anticipated that neither Fund will generate any significant items of tax preference for Limited Partners. However, for investors with substantial tax preference items from sources other than a Fund, the imposition of the alternative minimum tax could reduce the after-tax economic benefits of investment in such Fund. Prospective investors are urged to consult their tax advisors with regard to the specific effect of the new alternative minimum tax on an investment in such Fund.

State and Local Taxes

In addition to the federal income tax consequences described above, prospective Limited Partners should consider potential state and local tax consequences of an investment in a Fund. State and local laws often differ from federal income tax law with respect to the treatment of specific items of income, gain, losses, deductions, and credits. A Limited Partner's distributive share of the taxable income or loss of a Fund generally will be required to be included in determining his reportable income for state and local tax purposes in the jurisdiction in which he is a resident. In addition, a number of other states in which such Fund may do business or own properties may impose a tax on nonresident Limited Partners determined with reference to their allocable shares of Fund income derived by such Fund from such state. Partners may be subject to tax return filing obligations and income, franchise, estate, inheritance or other taxes in other jurisdictions in which the Fund does business, as well as their own states or localities of residence or domicile. Also, any tax losses derived through the Fund from operations in such states may be available to offset only income from other sources within the same state. To the extent that a nonresident Limited Partner pays tax to a state by virtue of Fund operations within the state, he may be entitled to a deduction or credit against tax owed to his state of residence with respect to the same income. In addition, estate or inheritance taxes might be payable upon the death of a Partner in a jurisdiction in which such Fund owns property.

Although not presently contemplated, the Funds also may operate in other states or jurisdictions which impose taxes on a Fund with respect to the activities or income of such Fund therein.

Prospective Limited Partners are urged to consult their tax advisors with respect to possible state and local income and death tax consequences of an investment in a Fund.

Backup Withholding

Distributions to Limited Partners whose Units are held on their behalf by a broker may constitute "reportable payments" under the federal income tax rule regarding backup withholding. Backup withholding, however, would apply only if the Limited Partner (*i*) failed to furnish his Social Security number or other taxpayer identification number to the person subject to the backup withholding requirement (*e.g.*, the broker) or (*ii*) furnished an incorrect Social Security number or taxpayer identification number. If backup withholding were applicable to a Limited Partner, the person subject to the backup withholding requirement would be required to withhold 20% of each distribution to such Partner and to pay such amount to the IRS on behalf of such Partner.

Nominee Reporting

Persons who hold interests in a Fund as a nominee for another person must (*i*) furnish to such Fund the name and address of such other person and any other information that may be prescribed in regulations and (*ii*) furnish to such other person the information described in (i) that must be furnished to such Fund.